

Granduc

GRANDUC MINES, LIMITED
(NON-PERSONAL LIABILITY)

ANNUAL
REPORT
1975



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Granduc

GRANDUC MINES, LIMITED
(NON-PERSONAL LIABILITY)

DIRECTORS

G. H. Davenport
W. J. Grismer
Henry L. Hill
J. Norman Hyland
W. H. Love

OFFICERS

J. Norman Hyland, President
W. H. Love, Vice-President
P. I. Conley, Secretary and Treasurer
L. John Creery, Assistant Secretary

AUDITORS

Peat, Marwick, Mitchell & Co., Vancouver

TRANSFER AGENT

Canada Trust Company, Vancouver
and Toronto

HEAD OFFICE

Room 2009, 1177 West Hastings Street,
Vancouver, B.C. V6E 2K3

The Annual General Meeting of the Shareholders
will be held on May 7, 1976 at 10:00 A.M. in the
Social Suite West of the Hotel Vancouver, 900
West Georgia Street, Vancouver, British Colum-
bia.

DIRECTORS REPORT TO THE SHAREHOLDERS

The year ended December 31, 1975 resulted in a loss of \$2,210,815, over \$2,000,000 greater than the loss of \$101,602 in 1974. The large loss was attributable to the combination of a depressed market value for copper and difficult operating conditions.

- a) The serious reduction in the world price of copper is reflected in the average London Metal Exchange value of copper of 56.5¢ U.S. per lb. in 1975 compared with 93.1¢ per lb. in 1974.
- b) As forecast in the Annual Report for 1974, the Lessees reduced the scale of operation by about 40% below the daily tonnage mined and milled in 1974 with a consequent reduction in the production of copper, gold and silver.
- c) Higher costs were encountered in the principal operating categories — labor, mine supplies, power, transport and smelting costs.

The combination of these negative factors caused a major reduction in your Company's share of defined net proceeds from \$3,266,498 in 1974 to a share of loss amount of \$347,024 in 1975, a negative swing of more than \$3.6 million.

The mine operating statistics for 1975, contrasted with 1974, are summarized below:

| | Year Ended Dec. 31, 1975 | Year Ended Dec. 31, 1974 |
|---|-----------------------------|-----------------------------|
| Tons of ore milled | 1,653,018 | 2,708,731 |
| Average tons of ore treated — per day | 4,529 | 7,421 |
| Average grade of mill feed — % copper | 1.20 | 1.23 |
| Tons of concentrate produced | 65,303 | 113,408 |
| Average grade of concentrate — % copper | 28.58 | 28.11 |
| Pounds of copper produced | 37,335,782 | 63,758,209 |
| Ounces of gold produced | 5,232 | 9,802 |
| Ounces of silver produced | 340,278 | 584,265 |
| Average copper price — | | |
| London Metal Exchange U.S. ¢ per lb. | 56.5 | 93.1 |

Your Directors consider it essential that each annual report to shareholders should clearly describe the accounting procedures which underlie the annual financial statements of the Company.

Under the terms of its Lease Agreement, Granduc Mines, Limited receives 22½% of the defined net proceeds of the mine operation. The net proceeds for any period are determined by deducting from the net smelter return received in cash, the operating expenses and capital expenditures incurred during such period. Any deficiency is deductible from future net proceeds. This cash accounting presentation does not reflect a value for the concentrate at the end of each accounting period for which cost has been incurred but full cash settlement not yet received. Commencing in 1973, therefore, your Company instituted an accrual basis of accounting and it is on an accrual basis that 1975 figures are compared with 1974. Further, Granduc's share of unsettled concentrate inventory at the year end is valued at the lower of cost or estimated net realizable value. For both 1974 and 1975, the year end valuation was at estimated net realizable value.

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| | Year ended December 31, 1975 Accrual basis | 1974 Accrual basis |
|--|--|-----------------------|
| Net smelter returns received in cash | \$ 19,298,206 | 57,758,378 |
| Deduct: | | |
| Operating expenses | 20,871,129 | 39,952,355 |
| Capital expenditures | 129,369 | 1,614,866 |
| Estimated B.C. mineral land taxes | <u>(159,961)</u> | <u>1,673,392</u> |
| | <u>20,840,537</u> | <u>43,240,613</u> |
| Excess (deficiency) of net smelter returns over operating expenses, capital expenditures and B.C. mineral land taxes | <u>\$ (1,542,331)</u> | <u>14,517,765</u> |
| 22½% share applicable to Granduc Mines | <u>\$ (347,024)</u> | <u>3,266,498</u> |
| Deferred royalty receivable at beginning of year | <u>1,197,340</u> | <u>2,203,686</u> |
| Received from lessees | <u>850,316</u> | <u>5,470,184</u> |
| Deferred royalty receivable at end of year | <u>200,637</u> | <u>4,272,844</u> |
| | <u>\$ 649,679</u> | <u>1,197,340</u> |

Statement of Earnings and Deficit:

The loss figure of \$347,024 in the above statement, appears as the basis figure in the statement of earnings and deficit. To this starting loss figure is added the following costs:

- a) The non-cash cost of \$1,460,174 for depletion and amortization of pre-production expenses.
- b) \$282,553 for interest payable on advances received from Asarco Incorporated and Granduc Operating Company and for interest payable on notes issued to Hecla Mining Company in connection with the purchase by Granduc of a portion of the Company's outstanding preferred shares owned by Hecla.
- c) \$175,088 for general administrative costs, maintenance of mineral claims and Province of B.C. Capital Tax.

After these additions, partially offset by interest earned of \$54,024, the loss for the year was \$2,210,815.

Granduc's Cash Position:

The Statement of Changes in Financial Position records that the working capital of the Company was reduced from \$770,297 at the end of 1974 to \$225,370 at December 31, 1975. The major part of the reduction arose from the Director's decision to make payments against the Company's debt in excess of the amounts required under the terms of the Lease Agreement. Debt repayments totalled \$624,500 for the year.

No further purchases of the Company's 5½% cumulative redeemable preferred shares were made in 1975.

Ore Reserves:

With respect to ore reserves, the following report was received from Granduc Operating Company.

"The total ore reserves as of December 31, 1975 are 19,606,453 tons at a grade of 1.69% copper. This is after deducting 1,292,959 tons at 1.69% copper extracted from production blasting and 95,173 tons at 1.48% copper from development. This reserve also reflects the downward adjustment of 1,327,584 tons in Block No. 4 between the 2600 level and the 2100 level which was recalculated after completion of the definitive downward drilling program in August 1975."

During 1975, the Directors received three reports from the independent consultant retained to make periodic inspections of the mine operation and report thereon. These reports are of assistance to the Company in updating its information with respect to current operations, ore reserves and future planning for the Granduc Mine.

British Columbia Mining Legislation:

The 1974 Annual Report of your Company emphasized the very serious impact on the mining industry arising from the taxation and administrative provisions of the Mineral Royalties Act and the Mineral Land Tax Act. This legislation was initiated and passed by the former government of the Province, which government was defeated in the Provincial election of December 11, 1975.

The newly elected government has announced its intention to repeal the existing Mineral Royalties legislation and to replace it with taxation measures to be based on the profitability of a mining enterprise in place of the punitive royalty and super-royalty legislation. Further, the Administrative sections of the legislation which bear so importantly on capital investment decisions, will be designed to encourage the intelligent planning and commitment of the large capital expenditures which are characteristic of mining development.

The Mineral Land Tax Act, which was applicable to Granduc, became effective on January 1, 1974 and in the two year period ended December 31, 1975, the assessment on the Granduc Mine was calculated at \$1,513,429.

Together with the rest of the B.C. Mining Industry, your Directors are encouraged by the improved legislative outlook for mining in British Columbia, and look forward with interest to learning the details of the promised new legislation.

The Max and Sulphurets Mineral Claims

The company continued exploration work on its mineral properties in the Stewart area.

Geological mapping and magnetic surveys were carried out on part of the Max iron-copper prospect located 20 miles northwest of Granduc Mine. These surveys fulfilled assessment work requirements and provided information that will be of value when work is resumed.

The Sulphurets Creek copper-molybdenum property is located 20 miles north of the Granduc Mine. A rock geochemical survey that was initiated during 1974 was completed

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during 1975. The survey data, together with information obtained from mapping and trenching operations, has more sharply defined those portions of the property that merit further work.

Means by which both properties might be further explored are currently being examined.

The Outlook for 1976:

The Annual Report for 1975 drew attention to the important capital and operating decisions required in order to mine the ore reserve lying below the 2600 main haulage level. A study to investigate methods and costs of mining this ore has been completed but this program will be deferred until the economic situation improves sufficiently.

With respect to 1976 operations, on March 23, 1976 Granduc Operating Company, the operating Lessee, announced that the production rate would be reduced from 4500 tons per calendar day to about 3400 tons per calendar day in order to permit more selective mining of higher grade ore. As a further measure to reduce costs, the camp at Tide Lake for single personnel will be closed on May 1 and after that date all personnel employed in the mine operation will be living in the town of Stewart.

The Mine Operation:

A Report of Operations for the Year ended December 31, 1975 has been provided by J. H. Parliament, President of Granduc Operating Company. This report furnishes detailed information on the mine operation and it is reproduced in this Annual Report for the information of Granduc shareholders.

The Annual General Meeting of Shareholders will be held on Friday, May 7, 1976 in the Social Suite West of the Vancouver Hotel at 10:00 A.M. Pacific Daylight Time.

ON BEHALF OF THE DIRECTORS

J. NORMAN HYLAND
President

Vancouver, B.C.
March 24, 1976

GRANDUC MINES, LIMITED (Non-Personal Liability)

BALANCE SHEET

December 31, 1975 with comparative figures for 1974

| | 1975 | 1974 |
|---|---------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and short-term bank deposits | \$ 277,123 | 803,171 |
| Accounts receivable | <u>2,527</u> | <u>1,400</u> |
| Total current assets | 279,650 | 804,571 |
| Deferred royalties receivable (Note 1) | 649,679 | 1,197,340 |
| Mining properties, at cost (Note 1) | 1,065,000 | 1,065,000 |
| Less accumulated depletion (Note 2) | <u>322,811</u> | <u>260,607</u> |
| | <u>742,189</u> | <u>804,393</u> |
| Mine development and pre-production expenditure, less accumulated amortization of \$7,254,854 | | |
| (1974 — \$5,856,884) (Notes 2 and 3) | <u>16,679,921</u> | <u>18,077,891</u> |
| | <u>\$18,351,439</u> | <u>20,884,195</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 54,280 | 34,274 |
| Notes payable to shareholder: | | |
| Interest bearing, including accrued interest | 1,671,114 | 1,892,038 |
| Non-interest bearing | <u>614,207</u> | <u>614,207</u> |
| | <u>2,285,321</u> | <u>2,506,245</u> |
| Advances from mining companies and accrued interest (Note 1) | 4,668,781 | 4,789,804 |
| Shareholders' equity (Notes 1 and 4): | | |
| Capital stock: | | |
| 5½% cumulative redeemable preferred shares of \$5 par value per share. Authorized 1,050,000 shares; issued and outstanding 357,000 shares | 1,785,000 | 1,785,000 |
| Common shares of \$1 par value per share. Authorized 8,000,000 shares; issued 3,363,022 shares | <u>3,363,022</u> | <u>3,363,022</u> |
| | <u>5,148,022</u> | <u>5,148,022</u> |
| Contributed surplus | 11,117,487 | 11,117,487 |
| Deficit, per accompanying statement | <u>(4,922,452)</u> | <u>(2,711,637)</u> |
| Total shareholders' equity | <u>11,343,057</u> | <u>13,553,872</u> |
| | <u>\$18,351,439</u> | <u>20,884,195</u> |

On behalf of the Board:

J. NORMAN HYLAND, Director

W. H. LOVE, Director

See accompanying notes to financial statements.

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GRANDUC MINES, LIMITED (Non-Personal Liability)
Statement of Earnings and Deficit

Year ended December 31, 1975 with comparative figures for 1974

| | 1975 | 1974 |
|---|-----------------------|--------------------|
| Accrual basis share of defined net proceeds (loss) from operations by lessees at Granduc Mine (Note 1) | \$ (347,024) | 3,266,498 |
| Costs: | | |
| Amortization of mine development and pre-production expenditure (Note 2) | 1,397,970 | 2,872,656 |
| Depletion of mining properties (Note 2) | 62,204 | 127,821 |
| Exploration and administration costs | 133,865 | 112,979 |
| Province of British Columbia capital tax | 41,223 | 52,000 |
| Interest on notes payable | 92,576 | 27,038 |
| Interest on advances from mining companies | <u>189,977</u> | <u>266,006</u> |
| | 1,917,815 | 3,458,500 |
| Less interest income | <u>54,024</u> | <u>90,400</u> |
| | 1,863,791 | 3,368,100 |
| Loss for the year | (2,210,815) | (101,602) |
| Deficit at beginning of year | <u>(2,711,637)</u> | <u>(1,927,583)</u> |
| | <u>(4,922,452)</u> | <u>(2,029,185)</u> |
| Accrued dividends on preferred shares purchased for cancellation | <u>—</u> | <u>(682,452)</u> |
| Deficit at end of year | <u>\$ (4,922,452)</u> | <u>(2,711,637)</u> |
| Loss per common share (Note 5) | <u>\$ (0.69)</u> | <u>(0.10)</u> |

See accompanying notes to financial statements.

GRANDUC MINES, LIMITED (Non-Personal Liability)

Statement of Changes in Financial Position

Year ended December 31, 1975 with comparative figures for 1974

| | 1975 | 1974 |
|---|-------------------|------------------|
| Funds provided by: | | |
| Operations: | | |
| Loss for the year | \$(2,210,815) | (101,602) |
| Add items not requiring working capital during the year: | | |
| Amortization and depletion | 1,460,174 | 3,000,477 |
| Interest on advances and notes | 282,553 | 293,044 |
| Share of mining income received in excess of amounts accrued | <u>547,661</u> | <u>1,006,346</u> |
| Funds provided by operations | 79,573 | 4,198,265 |
| Issue of notes payable to shareholder | — | 4,079,207 |
| Total funds provided | <u>79,573</u> | <u>8,277,472</u> |
| Funds applied to: | | |
| Acquisition of 5½% cumulative redeemable preferred shares | — | 4,147,452 |
| Reduction in notes payable to shareholder | 313,500 | 1,600,000 |
| Reduction in advances from mining companies | <u>311,000</u> | <u>1,749,589</u> |
| Total funds applied | <u>624,500</u> | <u>7,497,041</u> |
| Increase (decrease) in working capital | (544,927) | 780,431 |
| Working capital (deficiency) at beginning of year | 770,297 | (10,134) |
| Working capital at end of year | <u>\$ 225,370</u> | <u>770,297</u> |

See accompanying notes to financial statements.

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GRANDUC MINES, LIMITED (Non-Personal Liability)

Notes to Financial Statements

December 31, 1975

1. Mining properties:

Under the terms of a lease entered into on October 1, 1965, the lessees, American Smelting and Refining Company and Granduc Operating Company (a wholly-owned subsidiary of Newmont Mining Corporation) have developed and equipped the Granduc Mining property and from March 1, 1971, are obligated to pay the Company 22½% of the net proceeds from the mine, as defined. After 32,500,000 short tons have been milled the percentage is increased from 22½% to 25%. During 1975, the Company received payments from the lessees aggregating \$200,637.

Not less than 80% of all amounts received from the lessees must be applied against the repayment of the advances from mining companies, the redemption of the preferred shares, and accrued interest and dividends, respectively, on these obligations accruing after March 1, 1971. During 1975, a total amount of \$624,500 was paid out by the Company.

The defined net proceeds for any period are determined by deducting from the net smelter returns received in cash the operating expenses and capital expenditures incurred during such period. Any deficiency is deductible from future net proceeds.

The third column of the summary below sets forth the status of such defined net proceeds from March 1, 1971 to December 31, 1975. The first and second columns of the summary set forth the results on an accrual basis for the years 1975 and 1974.

| | Year ended December 31, 1975 Accrual basis | 1974 Accrual basis | Period from March 1, 1971 to December 31, 1975 Defined net proceeds |
|--|---|--------------------------|---|
| Net smelter returns received in cash | \$19,298,206 | 57,758,378 | 147,345,142 |
| Deduct: | | | |
| Operating expenses | 20,871,129 | 39,952,355 | 124,620,798 |
| Capital expenditures | 129,369 | 1,614,866 | 5,424,518 |
| Estimated B.C. mineral land taxes | (159,961) | 1,673,392 | 1,513,429 |
| | <u>20,840,537</u> | <u>43,240,613</u> | <u>131,558,745</u> |
| Excess (deficiency) of net smelter returns over operating expenses, capital expenditures and B.C. mineral land taxes | <u>\$ (1,542,331)</u> | <u>14,517,765</u> | <u>15,786,397</u> |
| 22½% share applicable to | | | |
| Granduc Mines, Limited | \$ (347,024) | 3,266,498 | 3,551,939 |
| Deferred royalty receivable | | | |
| at beginning of year | <u>1,197,340</u> | <u>2,203,686</u> | <u>—</u> |
| | <u>850,316</u> | <u>5,470,184</u> | <u>3,551,939</u> |
| Received from lessees | <u>200,637</u> | <u>4,272,844</u> | <u>4,473,481</u> |
| Deferred royalty receivable at end of year and cash (loss) carried forward .. | <u>\$ 649,679</u> | <u>1,197,340</u> | <u>(921,542)</u> |

2. Depletion and amortization:

Mining properties and mine development and pre-production expenditure are being amortized on the unit of production basis, based upon tons of ore milled.

3. Income taxes:

Under the existing provisions of the Federal and Provincial Taxation Acts the Company will not be liable for federal income taxes and provincial mining taxes until its net earnings exceeds the accumulated mine development and pre-production expenditure.

4. Capital stock:

Accrued dividends on the 5½% cumulative preferred shares amounted to \$474,512 at December 31, 1975. The preferred shares are redeemable at any time by the Company at par plus accrued dividends.

5. Loss per common share:

Loss per common share has been calculated by dividing the loss for the year, after providing for dividends on the 5½% cumulative redeemable preferred shares, by the number of common shares outstanding.

6. Statutory information:

The aggregate direct remuneration paid to directors and senior officers of the Company during the year ended December 31, 1975 was \$37,774 (1974 — \$28,537).

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Granduc Mines, Limited (Non-Personal Liability) as of December 31, 1975 and the statements of earnings and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the adequacy of future earnings to absorb the amortization of mine development and pre-production expenditure and depletion of mining properties, these financial statements present fairly the financial position of the company at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles, which have been applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
February 6, 1976

Peat, Marwick, Mitchell & Co.
Chartered Accountants

GRANDUC OPERATING COMPANY
 SUITE 520-890 WEST PENDER STREET
 VANCOUVER, B.C.

REPORT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1975

During the year January 1 to December 31, 1975, 37,335,782 pounds of copper were produced from milling 1,653,018 tons of ore with an average grade of 1.20% copper. Nine shipments of copper concentrate totalling 61,500 dry short tons were made from the Company's port facilities at Stewart.

Operations were conducted on a reduced scale from February onward after the December 1974 decision to cut production by approximately 50 percent. Operating performance objectives set for this program to minimize cash losses were met, and in certain cases exceeded. The tonnage milled during the year averaged 4529 tons per calendar day, well over the planned rate.

Mine

Underground operations were satisfactory, with all work scheduled on a five day week. The mine supplied 93.8% of the mill feed from production, with the remainder from development. Some difficulties were experienced handling wet ore during the summer "run off" period, and some production from the 'B' ore zones was deferred until fall. Beginning in October, the deterioration of the ground in several active levels in Block No. 2 raised concern. With the help of an outside consultant, the causes were mainly identified, and a program was developed that is felt will control and monitor ground stresses.

On July 19, the loss of control of the mainline ore train resulted in the destruction of a locomotive when the train ran into the end of the Tide Tunnel. Two and one half days of production were lost due to this accident.

In July, the rate of ore development was increased from 10 feet per day to 40 feet per day. This was necessary because of short range production scheduling in Block No. 1. It is estimated that this rate of development will sustain current production levels until the last half of 1976. Block No. 1 was developed to the 2840 level. Development in Block No. 2 remained at the 2940 level. Development work below the 2600 (main haulage) level was halted in January.

The diamond drilling program to evaluate ore reserves in Block No. 4 between the 2600 level and the 2100 level was completed in August. The ore reserves in the upper half of Block No. 3, between the 2600 level and 2350 level were also tested. This diamond drilling was finished in October. These ore definition programs are in conjunction with an engineering study, in progress at year end, to evaluate the capital and operating costs associated with alternatives for mining and handling ore below the 2600 level.

A summary of development work is as follows:

Primary Development Above 2600

| | |
|-------------------------------------|---------|
| Service Ramps, Drifts, X-Cuts | 172 ft. |
| Miscellaneous Raises | 6 ft. |
| Raises Bored | 0 ft. |
| Total: | 178 ft. |

Primary Development Below 2600

| | |
|-------------------------------------|-------|
| Service Ramps, Drifts, X-Cuts | 0 ft. |
| Miscellaneous Raises | 0 ft. |
| Raises Bored | 0 ft. |
| Total: | 0 ft. |

Sub Level Development

| | |
|----------------------------|-----------|
| Drifts and X-Cuts | 6,126 ft. |
| Miscellaneous Raises | 0 ft. |
| Total: | 6,126 ft. |

| | |
|--------------------------------|------------------|
| Total Development | 6,304 ft. |
|--------------------------------|------------------|

| | |
|--------------------------|------------------------------|
| Excavations | 5,690 ft.³ |
|--------------------------|------------------------------|

A total of 15,547 feet of diamond drilling was done during the year, primarily to provide more detailed ore definition. Of this total, 3,833 feet were drilled above 2600 and 11,714 feet were done below 2600 level. This drilling was entirely carried out with Company forces rather than by contract.

A total of 1,648,160 tons of ore was delivered to the underground crusher.

Concentrator

Operating:

Crushing and grinding operations were scheduled on a five days per week basis this year, taking advantage of the weekends for maintenance, or to make up production that may have been lost due to disruptions. The addition of steel balls to the pebble mill was stopped in February, dropping the average grinding power draw from 1200 h.p. to 875 h.p. Throughput and plant availability were satisfactory considering that the mill was one of the departments most affected by labor turnover and the loss of personnel depth after the "cut-back". Copper recovery for the year, 93.4% vs 95.22% in 1974, was below expectations, primarily due to the presence of oxide copper in the ore being mined near the surface in the 'B' zones.

The installation of equipment in the washing plant to remove fines from the ore prior to secondary crushing was deferred until the copper market improves.

Metallurgy:

| | |
|---|-----------|
| Dry Tons Milled | 1,653,018 |
| Dry Tons Milled per Day | 4,529 |
| Mill Feed Grade — Copper | 1.20% |
| Mill Tails — Copper | 0.07% |
| Concentrate Grade — Copper | 28.58% |
| Concentrate Produced — Dry Short Tons | 65,303 |
| Copper Recovery | 93.4% |

Plant and Mine Facilities

Plant facilities on surface at Tide and at Stewart and mine facilities underground continued to operate smoothly. There were only two significant power interruptions, both due to unusual weather conditions affecting the supply of boiler feed water. As cost cutting measures, the accommodations in Tide Camp were centralized and some of the older bunkhouses in the lower camp were abandoned.

The M.V. Lumba Lumba ceased making its run from Prince Rupert to Stewart in March. This vessel was sold in September.

Claims, Leases and Licences

Fourteen claims known as the Ray 1-14 inclusive, located in the Sulphurets — Mitchell Creek area were abandoned and returned to the lessors. A 20 year right-of-way lease was granted for the Trojan Horse Tunnel in December. All titles and licences were maintained in good order on the remaining claims. The number of mineral claims at year end numbered 239.

Stewart — Tide Road

Snow removal and road maintenance operations proceeded normally in 1975. Snowfall was normal, with 770 inches recorded at Tide during the 1974-75 winter season. Bus travel was prohibited for 24 hours during a heavy storm in February. Production was continued with crews held over in Tide. Summit Lake emptied during August with no damage being caused to the road by flooding.

Employee Relations

There were relatively few labor relations upsets during 1975, considering the possible impact that the layoff and cost saving measures could have had. There was an illegal work stoppage in February costing seventeen shifts of scheduled production.

Employee turnover was at a notably low rate during the year, averaging 5.85% with a record low in December of 2.5%. This sign of stability, along with a good effort by all employees, also resulted in a reduction of the accident frequency rate to 17 compared with the 1974 rate of 38.

At year end, 218 out of 279 housing units were occupied or assigned in Stewart, and 145 out of 179 units occupied or assigned in Tide. Over 60% of the employees now reside in Stewart. Also, all but the more junior single employees have a room to themselves in Tide. Both these factors helped to steady operations and employee relations.

Respectfully submitted,
J.H. PARLIAMENT
President

January 29, 1976

Fall

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

| | Six Months Ended | |
|---|------------------|-------------|
| | June 30/75 | June 30/74 |
| SOURCE OF FUNDS: | | |
| Net Earnings (Loss) | \$(855,440) | \$2,403,543 |
| Add or Deduct non-cash charges | | |
| Amortization and depletion | 707,909 | 965,870 |
| Interest on Advances and Notes | 146,995 | 143,458 |
| Deferred Income Taxes .. | | 376,000 |
| Accrual share of mining income less amount received in cash | | |
| 1975 — \$ 95,519 | 38,703 | (2,356,788) |
| 1974 — \$1,582,032 ... | 38,167 | \$1,532,083 |
| Total Funds Generated | | |
| USE OF FUNDS: | | |
| Reduction of long term debt | 502,000 | 647,589 |
| Increase (decrease) in working capital | \$(463,833) | \$ 884,494 |
| Working capital at beginning of period ... | 770,297 | (10,134) |
| Working capital at end of period | 306,464 | \$ 874,360 |

Granduc
GRANDUC MINES, LIMITED
 (NON - PERSONAL LIABILITY)

GRANDUC MINES, LIMITED
 (NON - PERSONAL LIABILITY)

To the Shareholders of
 Granduc Mines, Limited (N.P.L.)

In the six month period ending June 30, 1975 the Company sustained a loss of \$855,440 compared with a profit of \$2,403,543 recorded in the first half of 1974. The first half results of Granduc reflect the strong negative influences which bear on British Columbia's mining industry — escalating costs, harsh tax legislation and a depressed copper price.

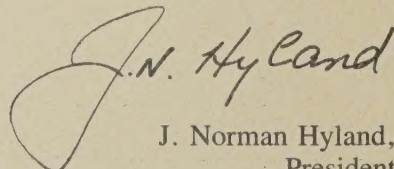
The estimated B.C. Mineral Land Tax for the Granduc Mine for six months was \$451,466 of which your Company's share is \$101,580. This is almost twice the \$56,816 which your Company accrued as its share of the defined net proceeds for the six month period.

As reported in the first quarter, the daily milling rate is now established at a level which averaged 4623 tons daily for the six month period. Copper production totalled 18,930,942 lbs. compared with 34,203,471 lbs. for the same period in 1974. The quarterly production statistics as provided by the Lessees are:

| | First Quarter | Second Quarter |
|-------------------------|-----------------|----------------|
| Tons Milled | 430,377 | 406,395 |
| Grade of Ore Milled ... | 1.25% Cu. | 1.14% Cu. |
| Copper Produced | 10,198,825 lbs. | 8,732,117 lbs. |

During the second quarter, one cash payment in the amount of \$95,519 was received from the Lessees and in accordance with the Lease Agreement, 80% of this amount was applied to reduce the Company's outstanding debt.

On behalf of the Directors



J. Norman Hyland,
 President

August 8, 1975

STATEMENT OF EARNINGS AND DEFICIT
(Unaudited)

| | Six Months Ended | June 30/75 | June 30/74 |
|---|----------------------|---------------------|------------|
| REVENUE: | | | |
| Accrual basis share of defined net proceeds from operations by Lessees at | | | |
| Granduc Mine | \$ 56,816 | \$ 3,938,820 | |
| COSTS: | | | |
| Amortization of mine development and pre-production expenditure . | 677,785 | 924,730 | |
| Depletion of mining properties | 30,124 | 41,140 | |
| Exploration and administrative costs | 63,992 | 44,417 | |
| Province of B.C. Capital Tax | 16,923 | 26,000 | |
| Interest on notes payable | 48,648 | | |
| Interest on advances from mining companies | 98,347 | 143,458 | |
| | <u>\$ 935,819</u> | <u>\$ 1,179,745</u> | |
| Less Interest Income | 23,563 | 16,468 | |
| | <u>\$ 912,256</u> | <u>\$ 1,163,277</u> | |
| Earnings (loss) before | | | |
| Income Taxes | (855,440) | 2,775,543 | |
| Income Taxes | | 1,216,000 | |
| Earnings (loss) before | | | |
| extraordinary item | \$ (855,440) | \$ 1,559,543 | |
| Reduction of Income | | | |
| Taxes due to prior years' losses | | | 844,000 |
| Net earnings (loss) | | | |
| for the year | | | |
| to date | \$ (855,440) | \$ 2,403,543 | |
| Deficit at beginning | | | |
| of year | (2,711,637) | (1,927,583) | |
| Surplus (deficit) at | | | |
| end of period | <u>(\$3,567,077)</u> | <u>\$ 475,960</u> | |
| Earnings (loss) | | | |
| per Common Share | (0.25) | 0.67 | |

Earnings (loss) per common share is after provision for dividends on the outstanding 5½% cumulative redeemable preferred shares.